

**BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

Docket No. 2000-487-E

**DIRECT TESTIMONY
OF
KENT J. MORTON
ON BEHALF OF
COLUMBIA ENERGY LLC**

Q. PLEASE STATE YOUR NAME, BUSINESS POSITION AND BUSINESS ADDRESS.

A. My name is Kent J. Morton. I am a project director for SkyGen Energy LLC ("SkyGen"), which is the managing member of Columbia Energy LLC. My business address is 650 Dundee Road, Suite 350, Northbrook, IL 60062.

Q. PLEASE DESCRIBE BRIEFLY YOUR PROFESSIONAL TRAINING AND EXPERIENCE.

A. I graduated from the U.S. Merchant Marine Academy in 1983. For two years after graduation I worked as a mechanical engineer with the Port Authority of New York and New Jersey. I then attended law school at Yale, and graduated in 1988. After graduation from Yale I worked as an attorney with the Washington, DC law firm of Shaw, Pittman, Potts & Trowbridge. In August 1992, I accepted a position as Project Manager with Kenetech Energy Systems, Inc., an independent power plant developer specializing in natural gas, biomass, and wind powered facilities. In May 1998, I accepted a position as Project Director with Skygen, also an independent power plant developer. On October 12, 2000, SkyGen was acquired by Calpine Corporation. I am currently employed by SkyGen, which operates as a wholly owned subsidiary of Calpine.

Q. PLEASE DESCRIBE COLUMBIA ENERGY LLC.

A. Columbia Energy LLC ("Columbia Energy") is a limited liability company organized and existing under the laws of the State of Delaware with its principal place of business in Northbrook, IL.

Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.

A. My testimony supports Columbia Energy's Application for the issuance of a Certificate of Environmental Compatibility and Public Convenience and Necessity ("Certificate") for the construction and operation of a generating facility ("the Facility") for the production of electric power and thermal energy to be located in Calhoun County, South

Carolina. My testimony also supports the Application's request for authorization for Columbia Energy's sale of thermal energy in the form of steam from the Facility under the terms of a contract with Eastman Chemical Company, Carolina Operations ("Carolina Eastman"). We seek the Commission's approval of that contract for the sale of steam.

Q. PLEASE DESCRIBE THE FACILITY.

- A. The Facility, which will be known as the "Columbia Energy Center," will be a combined cycle cogeneration power plant with a nominal net capacity of approximately 500 megawatts (MW). It will be located on a site leased from Carolina Eastman at its manufacturing plant in Calhoun County, approximately ten miles south of Columbia, South Carolina.

Q. PLEASE CONTINUE.

- A. The Columbia Energy Center will consist of two combustion turbines (each nominally rated at 170 MW), two heat recovery generators equipped with duct burners, one steam turbine (nominally rated at 175 MW), two auxiliary boilers to provide thermal energy during periods of maintenance or outage of the Facility, a fuel oil storage tank, water and cooling systems, electrical interconnections, and other ancillary equipment and structure. A heat transfer media ("HTM") system will also be a part of the Facility.

The Facility will be "Qualifying Facility" or "QF" as that term is defined in the Public Utilities Regulatory Policies Act ("PURPA"). It will produce useful thermal output and electricity that meet specific and exacting operating and efficiency standards. Those standards are intended to ensure that the QF will produce power and heat more efficiently than a conventional combined cycle power plant that does not produce thermal output for use outside the power plant.

Q. HOW WILL COLUMBIA ENERGY USE THE CAPACITY AND ENERGY THAT THE FACILITY WILL PRODUCE?

- A. Columbia Energy has planned, designed and engineered the Columbia Energy Center to allow it to displace the energy production capabilities from Carolina Eastman's existing coal-fired facilities pursuant to a long-term Energy Services Agreement. The displacement of these functions will allow Carolina Eastman to decrease its operating costs, minimize its plant assets, and concentrate more effectively on its core business by effectively "outsourcing" its energy operations. In addition to the economic and functional benefits offered by the proposed arrangement, which will improve Carolina Eastman's competitive position in the commodity business in which it operates, the Facility will be an environmentally friendly alternative to Carolina Eastman's current facilities.

Q. PLEASE SUMMARIZE THE CONTRACTUAL ARRANGMENTS BETWEEN COLUMBIA ENERGY AND CAROLINA EASTMAN.

- A. Under the terms of the Energy Services Agreement, Columbia Energy will produce thermal energy for sale to Carolina Eastman. Eventually, assuming appropriate modifications in existing law, Columbia Energy plans to sell electric power to Carolina Eastman as well. The purchase and sale of thermal energy will commence on the date all interconnection facilities (e.g., piping for steam, water, natural gas, electric transmission lines, etc.) are completed, all metering devices are installed and calibrated, and the Facility is first capable of regularly delivering and receiving the various commodities specified in the ESA (the "Delivery Date"). The initial term of the Energy Services Agreement will extend for twenty years from the Delivery Date with mutual extensions throughout the life of the Facility.

Q. WHAT OTHER MATTERS DOES THE ENERGY SERVICES AGREEMENT ADDRESS?

- A. The Energy Services Agreement contains provisions for the following: (1) coordinating construction efforts and safety practices, including those efforts that will take place within Carolina Eastman's existing facility; (2) coordinating energy deliveries, fuel supplies (Carolina Eastman may arrange for the supply of a portion of the fuel that the Facility will consume), and maintenance schedules; (3) arranging reliable back-up energy supplies in the event the Facility is not operating for any reason; (4) risk of loss and indemnification; (5) billing and payment; (6) events of default and remedies therefor; (7) audit rights; and (7) dispute resolution. Typical contractual provisions for governing law, notice and service, assignment, severability and survival, force majeure, insurance, and confidentiality are also included in the Energy Services Agreement.

Q. WHAT OPTIONS MIGHT BE AVAILABLE FOR SALE OF ELECTRIC POWER THAT THE FACILITY WILL PRODUCE?

- A. Under the Energy Services Agreements, Columbia Energy is obligated to use its best efforts to monitor the status of laws relating to the retail sale of electric power, and, if those laws are changed so as to allow such sales without leaving Columbia Energy subject to regulation as a public utility, to install all facilities necessary to deliver electric power to Carolina Eastman on a schedule that will allow it to begin electric power deliveries as close to the legally permitted date as possible. In the meantime, under appropriate agreements, the power and energy not designated for use by the Facility itself will be delivered into the grid through interconnection with the system of South Carolina Electric and Gas Company ("SCE&G") and sold on the wholesale market..

Q. HOW WAS THE FACILITY'S TECHNOLOGY SELECTED?

- A. Columbia Energy selected a design for the Facility's technology that would enable Carolina Eastman to displace its energy production facilities, to reduce its operating costs and plant assets, and to permit it to concentrate on its manufacturing operations rather than energy production. Overall, the Facility's technology will permit Carolina Eastman to be more competitive in the markets for its products with less impact on the

environment. For the purposes of the arrangement between Carolina Eastman and Columbia Energy, the technology we plan to use is the optimum choice in terms of efficiency and effectiveness.

Q. PLEASE DESCRIBE BRIEFLY THE NEED FOR COLUMBIA ENERGY FACILITY.

- A. The construction and operation of the Facility are necessary to permit Columbia Energy to satisfy its obligations under the Energy Services Agreement with Carolina Eastman. The Facility will also be a clean, low cost electric energy provider to the wholesale market.

Q. PLEASE DESCRIBE THE ENVIRONMENTAL IMPACTS OF THE FACILITY.

- A. The Facility will be located on approximately 20 acres of land leased from Carolina Eastman. The physical components of the Facility will be placed in close proximity to Carolina Eastman's existing manufacturing plant. Columbia Energy has applied for the necessary air permit from the South Carolina Department of Health and Environmental Control ("DHEC") and our air quality modeling demonstrates that there will be no significant impacts on air quality from the Facility. The Facility will utilize Carolina Eastman's existing water withdrawal permit to secure cooling water from the Congaree River. Because water supplies for all uses will be obtained under existing permits, no environmental impacts will occur beyond those that regulatory agencies have already approved. All wastewater discharges will use Carolina Eastman's existing discharge systems and will meet the conditions of its NPDES Permit. During construction, management of storm water will comply with all regulatory guidelines. During operations, all stormwater will be discharged into Carolina Eastman's permitted system, consistent with the applicable limitations. There are no threatened or endangered species or known archaeological sites on the Facility's site. Any impact on wetlands will be permitted in accordance with regulatory requirements.

Q. HAS COLUMBIA ENERGY RECEIVED ANY NEGATIVE COMMENTS FROM THE GOVERNMENTAL AGENCIES TO WHICH IT PROVIDED THE APPLICATION IN THIS PROCEEDING?

- A. No. We have not received any comments which raised environmental concerns or any other concerns with respect to the Facility.

Q. WHEN DO YOU EXPECT THE FACILITY TO BE OPERATIONAL?

- A. We expect the Columbia Energy Center to commence commercial operation by June 2003.

Q. WHAT IS THE BASIS FOR COLUMBIA ENERGY'S REQUEST THAT THE COMMISSION CERTIFY THE SALE OF THERMAL ENERGY WITHOUT FURTHER REGULATION?

- A. The contractual relationship between the parties under the Energy Services Agreement represents the product of extensive negotiation of terms and conditions by two sophisticated business entities, both of which were assisted by legal counsel throughout the negotiations. In addition to the agreed pricing provisions for the sale of thermal energy (including negotiated price escalation mechanisms), the Energy Services Agreement provides for dispute resolution, remedies for breach, and audit rights, all of which are designed to protect each party's interests in the contractual relationship.

Because of the extensive negotiations and the bargaining process, the business sophistication of the parties involved and the comprehensive provisions that the parties have incorporated into the Energy Services Agreement to protect their respective interests, Columbia Energy believes that public convenience and necessity would best be served by the Commission's certification of Columbia Energy to operate under the terms of the Energy Services Agreement without the full application of traditional regulatory principles and requirements, which are unnecessary to balance or protect the interests of the parties in these particular circumstances.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

- A. Yes.